

2012 Condition 5 Report



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Refresher

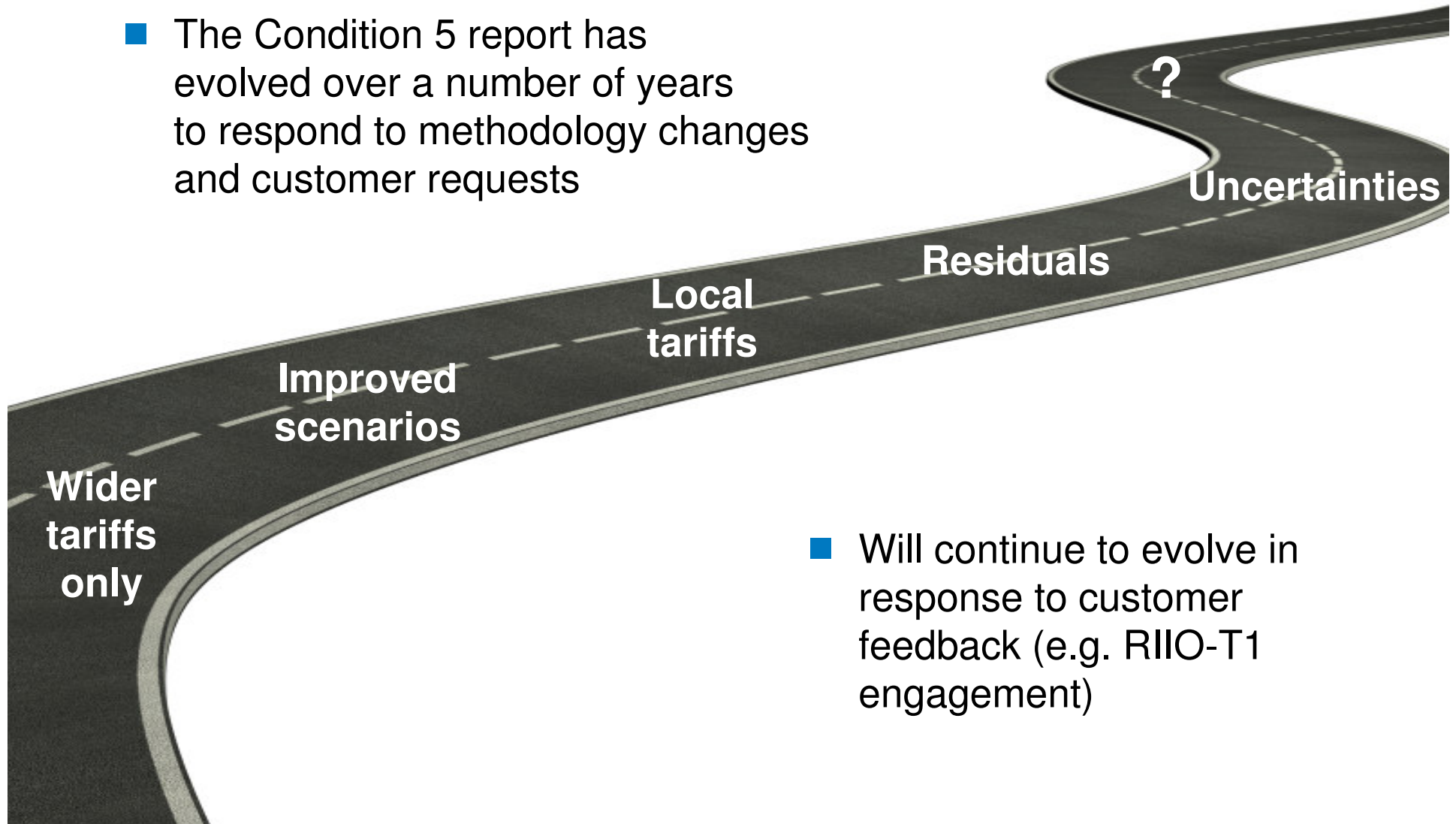
- The requirement to produce a forecast of tariffs was part of the Authority's approval of the GB Charging Methodology for BETTA

“Publish information at least once a year on the forecast future (at least five years) path of tariffs under a range of credible generation and demand scenarios (consistent with those already contained in the Seven Year Statement)”

- Intended to enhance
 - transparency
 - predictability aimed at **facilitating competition**

Evolution of the tariff forecast

- The Condition 5 report has evolved over a number of years to respond to methodology changes and customer requests



- Will continue to evolve in response to customer feedback (e.g. RIIO-T1 engagement)

The value of tariff forecasts

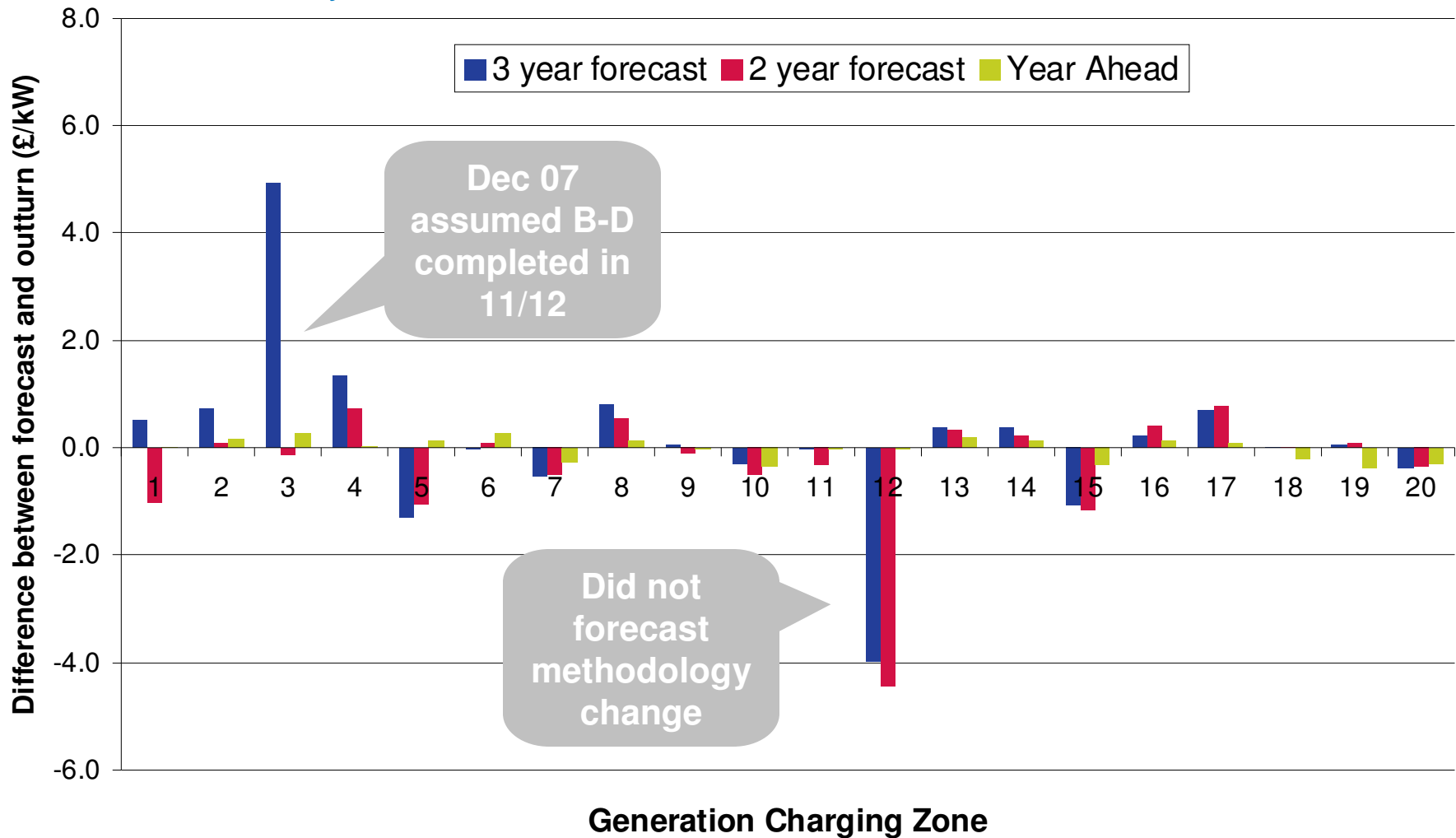
- Greatest value where predicted tariffs match actual tariffs
 - provides confidence in the forecast
 - parties can make decisions based on forecast

- The accuracy of the forecast is highly dependent on
 - stability of underlying information that impacts charges
 - generation
 - circuits
 - demand
 - stability of the charging methodology

How good are the tariff forecasts?

Previous forecasts for tariffs in 2011/12

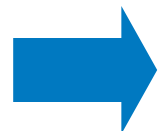
Locational tariffs only



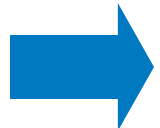
Challenges in light of TransmiT

- TransmiT poses a number of challenges to the forecast accuracy:
 - potential changes to the underlying charging methodology
 - high-level approach (SCR) and detailed approach (CUSC)
 - implementation timing uncertainties e.g. 2012 - 2014 (CUSC)

- There are many uncertainties throughout this process that will
 - undermine the accuracy of the forecast
 - lead to potentially misleading / confusing information



It is important that the forecast is of use to customers



Not currently clear there is value in a “full blown” forecast

Possible options for 2012

1. Provide forecast tariffs based on existing methodology
2. Consider high-level forecast based on analysis prepared during Project TransmiT e.g. Redpoint analysis?
3. Consider a delay preparation until conclusion of SCR / CUSC process

 **What do you think?**

 **What would be the best way to proceed?**

Next Steps

- Discuss at TCMF today
- Consider open letter to industry to canvas wider opinions
- Set out way forward when tariffs for 2012/13 are published in January 2012